

Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /082 W
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P 160740Z AUG 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 208
INFO USMISSION GENEVA PRIORITY

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E.O. 11652: N/A
TAGS: ETRD, GATT, JA
SUBJECT: THROWN SILK CONSULTATIONS

REF: A. STATE 181422
B. GENEVA 6432

1. SUMMARY: AUG 12 CONSULTATIONS ON THROWN SILK WERE WITHOUT SUBSTANTIAL RESULT. MAIN ARGUMENTS ON EACH SIDE--US: ILLEGALITY OF DISCRIMINATORY TREATMENT ON EXPORTS, AND JAPAN: IMPROPRIETY OF "ARTIFICIAL" THROWN SILK TRADE AS DEVICE TO EVADE RAW SILK STATE CORPORATION PROVISIONS--REMAINED LARGELY UNCHANGED BY DISCUSSIONS. THERE APPEARS TO BE LITTLE CHANCE FOR SETTLEMENT SHORT OF CONTINUING WITH GATT PROCEDURES. END SUMMARY.

2. MEETING OPENED WITH LENGTHY GOJ STATEMENT THAT COVERED THE ESTABLISHMENT OF JAPAN'S RAW SILK STATE TRADING ASSOCIATION AND SUBSEQUENT PROTECTIVE MEASURES ON THROWN SILK. (GOJ REPRESENTED PRIMARILY BY HASUMI OF MOFA AS WELL AS SAKAI AND KURODA OF MITI. THERE WERE OTHER DIV. DIRECTOR-LEVEL REPS FROM THESE MINISTRIES PLUS EPA, FINANCE, AND AGRICULTURE.) GOJ DESCRIBED PROBLEM OF LOWERING AGGREGATE DEMAND FOR SILK PRODUCTS IN JAPAN AND
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NECESSITY OF MAINTAINING PRESENT DOMESTIC RAW SILK PRICE UNDER JAPAN'S SILK LAW. JAPANESE TEAM EMPHASIZED POINT THAT U.S. THROWN SILK EXPORTS TO JAPAN ARE FEASIBLE ONLY BECAUSE U.S. HAS ACCESS TO CHEAPER (PRC & BRAZILIAN) RAW SILK; SILK EXPORTS TO JAPAN WHICH POST-DATE 1974 ARE NOT THROWN TO INCREASE THE ECONOMIC VALUE OF THE RAW SILK USED, BUT AS A DEVICE TO EVADE JAPAN'S RAW SILK LAW. GOJ ARGUED THAT GATT ARTICLE 17 ENTITLED JAPAN

TO PROTECT ITSELF FROM THIS THREAT TO ITS STATE TRADING CORPORATION. FINALLY, GOJ FEELS ITSELF OBLIGED TO HANDLE THIS IMPORT PROBLEM THROUGH BILATERAL AGREEMENTS WITH ITS MAJOR TRADITIONAL SUPPLIERS, WHILE LEAVING NON-TRADITIONAL SUPPLIERS TO COMPETE FOR BALANCE OF THROWN SILK ALLOWED INTO JAPAN THROUGH THE NEWLY ESTABLISHED "PRIOR-PERMISSION SYSTEM".

2. U.S. TEAM (POMERANZ) REPLIED THAT WHILE JAPAN WAS WITHIN ITS RIGHTS TO ESTABLISH A STATE TRADING ASSOCIATION, IT HAS SINCE ENACTED ARTIFICIAL AND ILLEGAL MEASURES TO EXTEND PROTECTIVE MEASURES TO THROWN SILK AND SILK FABRICS. QUANTITATIVE RESTRICTIONS APPLIED THROUGH FORMER "IMPORT CONFIRMATION" AND NEW "PRIOR PERMISSION" SYSTEMS HAVE NOT BEEN REPORTED TO THE GATT, (ARTICLES 10 AND 11), NOR HAVE QUANTITATIVE RESTRICTIONS BEEN JUSTIFIED UNDER GATT.

3. U.S. DELEGATION REJECTED JAPANESE ASSERTION THAT U.S. THROWN SILK IS A DEVICE TO EVADE JAPAN'S RAW SILK TRADING CORPORATION AND POINTED OUT THAT U.S. INDUSTRY HAS A LONG ESTABLISHED RECORD OF PRODUCING HIGH-QUALITY THROWN SILK. POMERANZ THEN OUTLINED THE INCREASINGLY DIFFICULT POSITION OF THE U.S. INDUSTRY, EMPHASIZING THAT EXPORTS TO JAPAN ARE ESSENTIAL IF SILK THROWSTERS ARE TO REMAIN IN BUSINESS. FOCUS OF U.S. POSITION WAS UNACCEPTABILITY OF DISCRIMINATORY TREATMENT BETWEEN U.S. AND SUPPLIERS WITH WHOM BILATERAL AGREEMENTS HAVE BEEN CONCLUDED (GATT ARTICLES 1 AND 13).

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4. BALANCE OF CONSULTATIONS FOCUSED ON ELABORATIONS OF THESE OPENING ARGUMENTS. GOJ SOUGHT FURTHER INFORMATION ON THE SIZE OF THE U.S. INDUSTRY, WHAT IT WAS DOING PRIOR TO 1974, AND WHETHER THE MILLS CONCERNED COULD NOT IN FACT BE DOING THINGS OTHER THAN PRODUCING THROWN SILK FOR EXPORT TO JAPAN. JAPANESE CONTINUED TO DWELL ON ARTIFICIALITY (AND BASIC IMPROPRIETY) OF THROWN SILK TRADE, SHARPLY QUESTIONED U.S. CLAIM OF PRE-1974 EXPORT ACTIVITY, AND WONDERED WHY JAPAN, FACED WITH A DECLINING SILK INDUSTRY OF ITS OWN, SHOULD BE RESPONSIBLE FOR KEEPING U.S. THROWSTERS IN "WINDFALL" BUSINESS.

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5. U.S. DEL IN TURN RESTATED U.S. INDUSTRY'S TRADITION OF HIGH-QUALITY PRODUCTION AND DENIED THAT MILL FACILITES OR PERSONNEL CAN BE READILY REDIRECTED TO OTHER LINES OF WORK. POMERANZ POINTED OUT THAT ARGUMENTS CONCERNING "ARTIFICIALITY" OF THROWN SILK EXPORTS AS WELL AS PRE-1974 ACTIVITIES OF U.S. INDUSTRY ARE IRRELEVANT, SINCE GOJ RESTRICTIONS MAKE IT IMPOSSIBLE TO DETERMINE REAL COMPETITIVENESS OF U.S. INDUSTRY. POMERANZ ASKED GOJ TO REMOVE BARRIERS TO ENTRY OF U.S. THROWN SILK; "SPURIOUS" THROWN SILK CLEARLY SHIPPED BY OTHER SUPPLIERS TO EVADE RAW SILK REGULATIONS CAN BE BLOCKED BY CUSTOMS INSPECTION. THERE WAS NO RESPONSE TO THIS POINT.

6. WHILE GOJ FOR FIRST TIME GAVE AN OFFICIAL FIGURE FOR THE AMOUNT OF THROWN SILK TO BE PLACED ON THE MARKET FOR NON-TRADITIONAL SUPPLIERS (7,000 BALES), THERE WAS NO NEGOTIATION ON A MUTUALLY ACCEPTABLE AMOUNT FOR U.S. THROWN SILK EXPORTS. GOJ ATTEMPT TO EXPLAIN THE MECHANICS OF ITS PRIOR PERMISSION SYSTEM LEFT U.S. DEL CONFUSED -- IT IS NOT CLEAR WHETHER GOJ OFFICIALS THEMSELVES HAVE FULLY DECIDED HOW THEY WILL ADMINISTER THIS NEW MEASURE. CONSULTATIONS ENDED WITHOUT SUBSTANTIAL AGREEMENT.

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7. COMMENT: AS ABOVE REVIEW INDICATES, CONSULTATIONS WERE LARGELY A STERILE EXERCISE; THE GAP BETWEEN EACH SIDE'S BASIC POSITION SEEMS ALMOST UNBRIDGEABLE. EXCEPT FOR A VAGUE, UNELABORATED STATEMENT THAT U.S. SILK MAY RECEIVE FAVORABLE CONSIDERATION DURING INITIAL IMPORT LICENSING PROCEDURES CARRIED OUT THE WEEK OF AUGUST 8-12, GOJ SHOWED NO WILLINGNESS TO RESOLVE THROWN SILK ISSUE SHORT OF GOING THROUGH GATT PROCEDURES.

8. AT MITI - HOSTED DINNER FOLLOWING CONSULTATIONS, KAWASAKI AND HONOBÉ AGAIN SUGGESTED THAT U.S. IS MISTAKEN IN ATTACKING THROWN SILK RESTRICTIONS WHEN REAL ISSUE IS THAT OF STATE TRADING COR-

PORATIONS, SUCH AS THE ONE ESTABLISHED FOR RAW SILK. MITI FEARS THAT THIS CORPORATION, THE ESTABLISHMENT OF WHICH MITI ORIGINALLY OPPOSED (THE RAW SILK LAW WAS DRAFTED RATHER THAN BUREAUCRACY DRAFTED), WILL BE USED AS A PRECEDENT FOR OTHER (PRIMARILY AGRICULTURAL) INTERESTS SEEKING PROTECTION FROM PRESSURE FOR INCREASED IMPORTS. WHILE EMBASSY UNDERSTANDS THE SERIOUSNESS OF THIS POINT, WE DO NOT KNOW WHAT, IF ANY, LEGAL GROUNDS ARE AVAILABLE FOR DIRECTLY PROTESTING THE OPERATION OF A STATE TRADING CORPORATION. END COMMENT.

9. SUBSTANCE OF THIS CABLE WAS CLEARED WITH M. POMERANZ PRIOR TO HIS DEPARTURE.
MANSFIELD

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